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Message Text

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ACTION ARA-10

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O R 201445Z MAY 75
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC IMMEDIATE 8792
INFO SECDEF WASHDC
USCINCSO QUARRY HEIGHTS CZ
AMEMBASSY BOGOTA

S E C R E T CARACAS 5225

E.O. 11652: GDS
TAGS: PFOR, VE, MASS
SUBJECT: IG MEETING ON VENEZUELAN CASP: FMS CREDITS TO VENEZUELA

REF: STATE 100351; STATE 106192

BEGIN SUMMARY: IN VIEW OF DEVELOPMENTS SINCE CASP SUBMISSION, EMBASSY WISHES TO FORWARD A REVISED TEXT OF THE ANALYSIS OF ISSUE THREE CONCERNING RELATIONS WITH VENEZUELA IN THE MILITARY FIELD. EMBASSY SUGGESTS THAT ISSUE BE REVISED TO READ, "SHOULD THE U.S. CONTINUE TO PROVIDE VENEZUELA WITH MODERATE LEVELS OF FMS DIRECT CREDIT?" WE BELIEVE THERE ARE COMPELLING REASONS FOR MAINTAINING FSM DIRECT CREDITS -- AT COMMERCIAL RATES OF INTEREST -- AT THE CURRENT LEVEL OF $17 MILLION THROUGH FY 77, AT WHICH TIME THERE SHOULD BE A NEW CASP REVIEW OF ISSUE. END SUMMARY.

1. WHEN THE EMBASSY PREPARED ITS CASP SUBMISSION, OUR UNDERSTANDING--
BASED UPON THE 1976-77 PROJECTED SECURITY ASSISTANCE LEVELS (STATE 33070) AND THE NOVEMBER 7, 1974, DECISION CABLE TO UNDER SECRETARY MAW -- WAS THAT WASHINGTON HAD FIRMLY DECIDED GRADUALLY
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TO REDUCE THE AMOUNT OF FMS CREDIT TO VENEZUELA AND TO DROP ITS

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POLICY OF EVEN-HANDEDNESS. FOR THIS REASON IN OUR DISCUSSION OF ISSUE THREE THE ASSUMPTION WAS MADE THAT "DURING THE CASP TIME FRAME, U.S. FMS DIRECT CREDITS TO VENEZUELA WILL DECLINE AND THE PREVIOUS U.S. POLICY OF 'EVEN-HANDEDNESS' BETWEEN VENEZUELA AND COLOMBIA WILL NOT APPLY." OUR RECOMMENDATIONS, THEREFORE, WERE DIRECTED TOWARDS TRYING TO COMPENSATE FOR THE ADVERSE IMPACT HERE OF A NEW POLICY OF "UNEVEN-HANDEDNESS" AND OF DECLINING FMS CREDITS BY SEEKING NEW FORMS OF COOPERATION AND CONTACT WITH THE VENEZUELAN ARMED FORCES.

2. PRE-IG DISCUSSION (REFTELS) INDICATES, HOWEVER, THAT WASHINGTON IS STILL REVIEWING THE EVEN-HANDEDNESS POLICY AND IS ALSO EXAMINING THE JUSTIFICATION FOR PROVIDING FMS CREDITS TO OIL-RICH COUNTRIES. SINCE THIS CONTINUING REVIEW HAS CHANGED SOME OF OUR UNDERLYING ASSUMPTIONS, THE EMBASSY HAS REVISED ITS DESCRIPTION OF ISSUE THREE IN THE "ISSUE ANALYSIS" SECTION. NEW TEXT FOLLOWS BELOW, WHICH SHOULD REPLACE DISCUSSION OF ISSUE THREE IN CASP SUBMITTED MARCH 7, 1975, UNDER COVER OF CARACAS AIRGRAM A-39.
BEGIN TEXT
STATEMENT OF ISSUE NO. 3
SHOULD THE U.S. CONTINUE TO PROVIDE VENEZUELA WITH MODERATE LEVELS OF FMS DIRECT CREDIT?
IMPORTANT ASSUMPTIONS
1. THE VENEZUELAN GOVERNMENT WILL CONTINUE ITS PROGRAMS OF IMPROVING AND MODERNIZING ITS ARMED FORCES AND WILL ALLOCATE SUFFICIENT RESOURCES TO ACCOMPLISH THIS PROGRAM.
2. THE VENEZUELAN ARMED FORCES WILL SEEK MATERIEL AND CREDIT FROM WHATEVER SOURCE WHICH WILL PROVIDE THE MOST FAVORABLE TERMS AND RELIABLE FOLLOW-ON SUPPORT.
3. THE VENEZUELAN ARMED FORCES WILL MONITOR CLOSELY DEVELOPMENTS IN THE COUNTRY AND BE PREPARED TO MAINTAIN ITS STABILITY.
ISSUE RESOLUTION
RECOMMENDATION: THE U.S. SHOULD MAINTAIN FMS DIRECT CREDIT LEVELS TO VENEZUELA OF ABOUT $17 MILLION THROUGH FY 77, AND THIS LEVEL SHOULD BE REVIEWED AGAIN IN THE NEXT CASP CYCLE.
REASONS FOR RECOMMENDATION: WE CANNOT EXPECT TO MAINTAIN OUR TRADITIONALLY CLOSE AND CONSTRUCTIVE RELATIONSHIP WITH THE VENEZUELAN MILITARY IF THE UNITED STATES FORFEITS ITS ROLE AS A SIGNIFICANT ARMS SUPPLIER. OUR OTHER MILITARY ACTIVITIES, INCLUDING THE TRAINING AND ADVISORY FUNCTIONS, ARE OBVIOUSLY LINKED TO THE SUPPLIER RELATION
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SHIP. IF THE UNITED STATES IS CLOSED OFF AS A SOURCE FOR VENEZUELA'S MODEST NEEDS IN MODERN ARMS AND EQUIPMENT, THESE TIES WILL GRADUALLY DISAPPEAR TO BE REPLACED BY OTHER INFLUENCES AND CONNECTIONS.
BECAUSE OF THE PECULARITIES OF THE GOV'S INTERNAL REQUIREMENTS WITH RESPECT TO CREDIT PURCHASES, A REASONABLE AMOUNT OF FMS CREDIT WILL PROBABLY BE NECESSARY TO SUSTAIN THE SUPPLIER RELATION-

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SHIP. UNDER THE 1970 "PUBLIC CREDIT LAW," THE VENEZUELAN CONGRESS MUST REVIEW ANY REQUEST BY A VENEZUELAN GOVERNMENT AGENCY FOR COMMERCIAL CREDIT. BECAUSE OF THE LONG DELAYS AND UNCERTAINTIES INVOLVED IN CLEARING THROUGH THE NATIONAL CONGRESS COMMERCIAL CREDIT PURCHASES OF MILITARY EQUIPMENT, THE MINISTRY OF DEFENSE AVOIDS COMMERCIAL CREDIT ENTIRELY AND OBTAINS ARMAMENTS EITHER THROUGH CASH PURCHASES, PAID FOR OUT OF THE REGULAR MILITARY BUDGET, OR THROUGH GOVERNMENT-TO-GOVERNMENT CREDIT PURCHASES, WHICH ARE ADDITIONAL T THE REGULAR BUDGET. FOR EXAMPLE, IN 1974, ALTHOUGH THE U.S. OFFERED VENEZUELA $30 MILLION IN CREDIT FOR MILITARY PURCHASES, THE MINISTRY ONLY USED THAT PORTION '$7.5 MILLION) COVERED BY FMS DIRECT DOD CREDITS. THERE IS NO PRECISE LIMIT ON GOVERNMENT-TO-GOVERNMENT CREDIT ARRANGEMENTS, BUT THEY MUST BE CLEARED BY THE VENEZUELAN PRESIDENT AND MINISTRY OF TREASURY. SINCE 1971, DIRECT FMS CREDITS HAVE ACCOUNTED FOR ABOUT 30 PERCENT OF VENEZUELA'S ARMS PURCHASES FROM THE UNITED STATES. IN OUR JUDGMENT THE AVAILABILITY OF THESE CREDITS HAS REINFORCED A GENERAL PREFERENCE FOR U.S. EQUIPMENT AND HAS BEEN A KEY FACTOR IN THE OVERALL RELATIONSHIP. WE BELIEVE SUCH CREDITS WILL BE REQUIRED, AT LEAST IN THE IMMEDIATE FUTURE, IF THAT RELATIONSHIP IS TO BE SUSTAINED.

CONTINUING FMS CREDITS AT A REASONABLE LEVEL WILL ALSO AVOID ANY APPEARANCE OF U.S. BIAS TOWARDS COLOMBIA. THE VENEZUELAN MILITARY ARE FAR MORE SENSITIVE ABOUT COLOMBIA AND THE INCIPIENT RIVALRY WITH THAT COUNTRY THAN ANY OTHER SEGMENT OF SOCIETY HERE. AT THE SAME TIME, WE DO NOT ADVOCATE AN ATTEMPT TO MAINTAIN ABSOLUTE PARITY OR EVEN-HANDEDNESS IN FMS CREDITS. A SOMEWHAT HIGHER LEVEL FOR COLOMBIA CAN BE EXPLAINED HERE IN VIEW OF THE DIFFERING NEEDS AND CIRCUMSTANCES OF THE TWO COUNTRIES. NOR DO WE ADVOCATE CONCESSIONAL ASSISTANCE FOR VENEZUELA. IN THIS CASE THE "ASSISTANCE" TAG SHOULD BE REMOVED FROM FMS CREDITS BY OFFERING STRICTLY COMMERCIAL TERMS AND INTEREST RATES. IF OTHER COSTS ARE INVOLVED A SUITABLE FEE SHOULD

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BE CHARGED. AN ARRANGEMENT OF THIS KIND WILL HELP TO PRESERVE OUR IMPORTANT TIES TO THE VENEZUELAN MILITARY, PROTECT A MARKET WE MIGHT OTHERWISE LOSE AND CONTRIBUTE TO THE RATIONAL AND COOPERATIVE OVERALL RELATIONSHIP WE SEEK WITH THIS COUNTRY.

ALTERNATIVES: (A) THE U.S. COULD INCREASE ITS LEVELS OF DIRECT CREDIT TO VENEZUELA, WHICH THE VENEZUELAN MINISTRY OF DEFENSE WOULD LIKE TO HAVE AND WOULD LIKE TO HAVE AND WOULD UTILIZE. (B) THE U.S. COULD SUBSTANTIALLY REDUCE FMS DIRECT CREDITS, BUT THIS WOULD PROPORTIONATELY REDUCE ARMS SALES TO VENEZUELA AND HURT OUR RELATIONS WITH THE VENEZUELAN ARMED FORCES. END TEXT.

3. THE ONLY OTHER ALTERATION WHICH THE EMBASSY WOULD LIKE TO MAKE IN ITS CASP SUBMISSION ON THIS SUBJECT IS TO CHANGE THE ESTIMATED FY 77 RESOURCES ON PAGE 26 FROM $13,400,000 FMS CREDIT TO $17 MILLION FMS DIRECT CREDIT, IN ORDER TO BE CONSISTENT

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WITH THE RECOMMENDATION MADE ABOVE.
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